



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

January 11, 2006

TO: Representative Jim McIntire, Chair
Senator Joseph Zarelli
Senator Mark Doumit
Representative Ed Orcutt
Victor Moore, OFM, Director
Cindi Holmstrom, DOR, Director

FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: January 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,104.0 million in the December 11, 2005–January 10, 2006 collection period. Collections were \$27.8 million (2.6 percent) above the estimate for the month. Higher than expected Revenue Act taxes (sales, business and occupation, use, and public utility) and real estate excise tax payments were the primary reason for this month's positive variance. Liquor and estate tax payments were also a little higher than expected this month. Cigarette tax payments and unclaimed property transfers were less than expected this period. This month's positive variance increases the cumulative variance since the November 2005 forecast to \$32.7 million. Although tax payments are more than expected, most of this month's variance reflects special factors, not stronger than expected economic activity. Collections this month include two unusually large and unexpected audit payments (\$23.3 million). Excluding special factors (the two unusually large audit payments this month and one last month) collections are only \$8.1 million above the forecast for the month and \$4.8 million higher than expected in the two months since the November forecast. Special factors aside, GFS collections indicate that the November revenue forecast continues to be pretty much on track.

Recent economic news has been generally positive, although the most recent U.S. employment numbers were disappointing. The U.S. economy added 108,000 jobs in December, less than most economists had been expecting. However, the November number was revised up significantly to 305,000 from the previously reported 215,000. In addition, the December unemployment rate dropped to 4.9 percent in December despite the weak employment number. Other positive news includes an increase in the index on leading indicator in November, which follows a large gain in October, and another improvement in the index of consumer confidence in December.

Revenue Act collections were \$31.4 million higher than expected this month. Tax payments this period primarily reflect November 2005 activity of monthly taxpayers; however, collections this month included two unusually large (\$26.3 million) audit payments that are unrelated to the strength of business activity in November. Revenue Act receipts were 7.3 percent higher than a year-ago (adjusted for special factors). This was the same as last month's increase. Growth in the last two months has been significantly slower than previous months. Year-over-year Revenue Act growth averaged 12.0 percent in the third quarter and 9.4 percent in the second quarter. Although the 7.3 percent growth in the first two months of the fourth quarter is significantly less than recent quarters, it is still stronger than state personal income growth and the growth of U.S. total retail sales in the fourth quarter.

Industry detail of tax payments in the December 11, 2005 to January 10, 2006 collection period based on preliminary payment data of 17,200 taxpayers who filed electronically shows further slowing in the retail trade sector but moderate to strong growth in most other major sectors. Businesses in the retail trade and food services sector reported a 2.8 percent year-over-year increase in tax payments this month. Last month this sector reported a 4.4 percent in tax payments. The slower growth in the retail trade sector was due to weakness in the two largest retail trade sectors: autos dealers and general merchandise stores. This month auto dealers reported an increase in tax payments of only 0.1 percent while general merchandise retailers reported a 11.6 percent decline in tax payments. Last month auto dealers reported a 3.7 percent decline in tax payments while general merchandise stores reported a 5.8 percent increase. A large portion of the decline reported by the general merchandise stores this period is likely due to a reporting anomaly rather than to a drastic decline in activity. Most of the other retail trade sectors reported strong growth in tax payments this month; several sectors including, electronics and appliance stores, furniture and home furnishing stores, building equipment and garden equipment retailers, food stores, gas stations and apparel and accessory retailers reporting double-digit increases. Overall, tax payments by non-retail trade and food services were 8.7 percent higher than a year ago. Last month this category reported a 7.8 percent increase. Sectors with double digit increases included: construction (+14.9 percent), wholesale trade (+11.3 percent), information (+12.2 percent) and finance and insurance (+22.3 percent). The manufacturing sector reported a 7.6 percent decline in tax payments. The impact of the strong real estate market continues to impact overall spending. Construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) again grew much faster (+13.8 percent) than other sectors (+3.8 percent).

Non-Revenue Act General Fund taxes were \$3.8 million less than the estimate for the month, but remain \$5.9 million higher than expected for the two months since the last forecast. This month weaker than expected property tax payments (-\$5.1 million) and "other"(-\$3.6 million), primarily unclaimed property transfers, more than offset stronger than expected real estate excise tax payments (+\$4.1 million) and estate tax payments (+664,000). Cumulative, most major sources are close to the estimate; the exceptions are the: real estate excise tax, which exceed the estimate by \$11.6 million and "other"(unclaimed property transfers and brokered natural gas tax) which is \$8.4 million less than expected.

Although the anecdotal evidence of slowing in real estate activity continues, there is still little evidence of any slowing based on the most recent month of taxable real estate activity. Taxable real estate activity in the most recent month (closings in November which reflect tax payments to the state in December were 25.4 percent higher than a year-ago. Although it was less than the 33.6 percent increase the prior month and the 45.5 percent increase two months ago, it was still well above the long run average rate of increase. The majority of the increase was again due to an increase in the value per transaction (+20.2 percent). The number of transactions increased 4.3 percent from the year-ago month.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$168,000 above the estimate for the month and are \$187,000 higher than estimated for the two months since the November forecast.

The attached Table 1 provides a comparison of collections with the November 2005 forecast for the December 11, 2005 – January 10, 2006 collection period and cumulative since the November forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
January 10, 2006 Collections Compared to the November 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
Dec. 11 - Jan. 10, 2006				
Department of Revenue-Total	\$1,076,055	\$1,103,656	\$27,601	2.6%
Revenue Act** (1)	759,943	791,343	31,401	4.1%
Non-Revenue Act(2)	316,112	312,313	(3,799)	-1.2%
Liquor Sales/Liter	11,850	12,180	331	2.8%
Cigarette	3,973	3,775	(198)	-5.0%
Property (State School Levy)	228,555	223,486	(5,070)	-2.2%
Estate	0	664	664	NC
Real Estate Excise	62,677	66,735	4,058	6.5%
Timber (state share)	0	0	0	NA
Other	9,057	5,473	(3,584)	-39.6%
Department of Licensing (2)	199	367	168	84.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,076,254	\$1,104,023	\$27,770	2.6%
Cumulative Variance Since the November 2005 Forecast (Nov. 11, 2005 - Jan. 10, 2006)				
Department of Revenue-Total	\$2,410,342	2,442,877	32,535	1.3%
Revenue Act** (3)	1,535,197	1,561,878	26,681	1.7%
Non-Revenue Act(4)	875,145	880,999	5,854	0.7%
Liquor Sales/Liter	23,379	23,627	248	1.1%
Cigarette	7,771	7,910	139	1.8%
Property (State School Levy)	647,146	647,741	595	0.1%
Estate	104	1,788	1,684	NA
Real Estate Excise	146,544	158,130	11,586	7.9%
Timber (state share)	2,651	2,681	30.4	1.1%
Other	47,550	39,122	(8,427)	-17.7%
Department of Licensing (4)	400	587	187	46.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,410,742	\$2,443,464	\$32,722	1.4%

1 Collections December 11 - January 10, 2006. Collections primarily reflect November 2005 activity of monthly taxpayers.

2 December 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the November 2005 forecast; (November 11, 2005 - January 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2005 forecast; (November and December 2005) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the November 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
December 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
November 11 - December 10, 2005				
Department of Revenue-Total	\$1,339,221	\$1,339,221	\$0	0.0%
Revenue Act (1)	770,535	770,535	0	0.0%
Non-Revenue Act(2)	568,686	568,686	(0)	-0.0%
Liquor Sales/Liter	11,446	11,446	0	0.0%
Cigarette	4,140	4,140	(0)	-0.0%
Property (State School Levy)-net	424,254	424,254	0	0.0%
Estate	1,124	1,124	(0)	-0.0%
Real Estate Excise	91,395	91,395	(0)	-0.0%
Timber (state share)	2,681	2,681	0	NA
Other	33,645	33,645	0	0.0%
Department of Licensing (2)	256	220	(36)	-14.1%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,339,477	1,339,441	(\$36)	-0.0%

Cumulative Receipts: November 11 - December 10, 2005 & Revisions to History

Department of Revenue-Total	\$1,339,221	\$1,339,221	\$0	0.0%
Revenue Act (3)	770,535	770,535	0	0.0%
Non-Revenue Act(4)	568,686	568,686	(0)	-0.0%
Liquor Sales/Liter	11,446	11,446	0	0.0%
Cigarette	4,134	4,134	0	0.0%
Property (State School Levy)-net after transfer	424,255	424,254	(1)	-0.0%
Estate	1,124	1,124	(0)	-0.0%
Real Estate Excise	91,395	91,395	(0)	-0.0%
Timber (state share)	2,681	2,681	0	NA
Other	33,650	33,651	1	0.0%
Department of Licensing (4)	256	220	(36)	-14.1%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,339,477	\$1,339,441	(\$36)	-0.0%

Preliminary. Reported in the December 10, 2005 collection report.

1 Collections Nov. 11 - Dec. 10, 2005. Collections primarily reflect October 2005 business activity of monthly taxpayers.

2 November 1-30, 2005 collections.

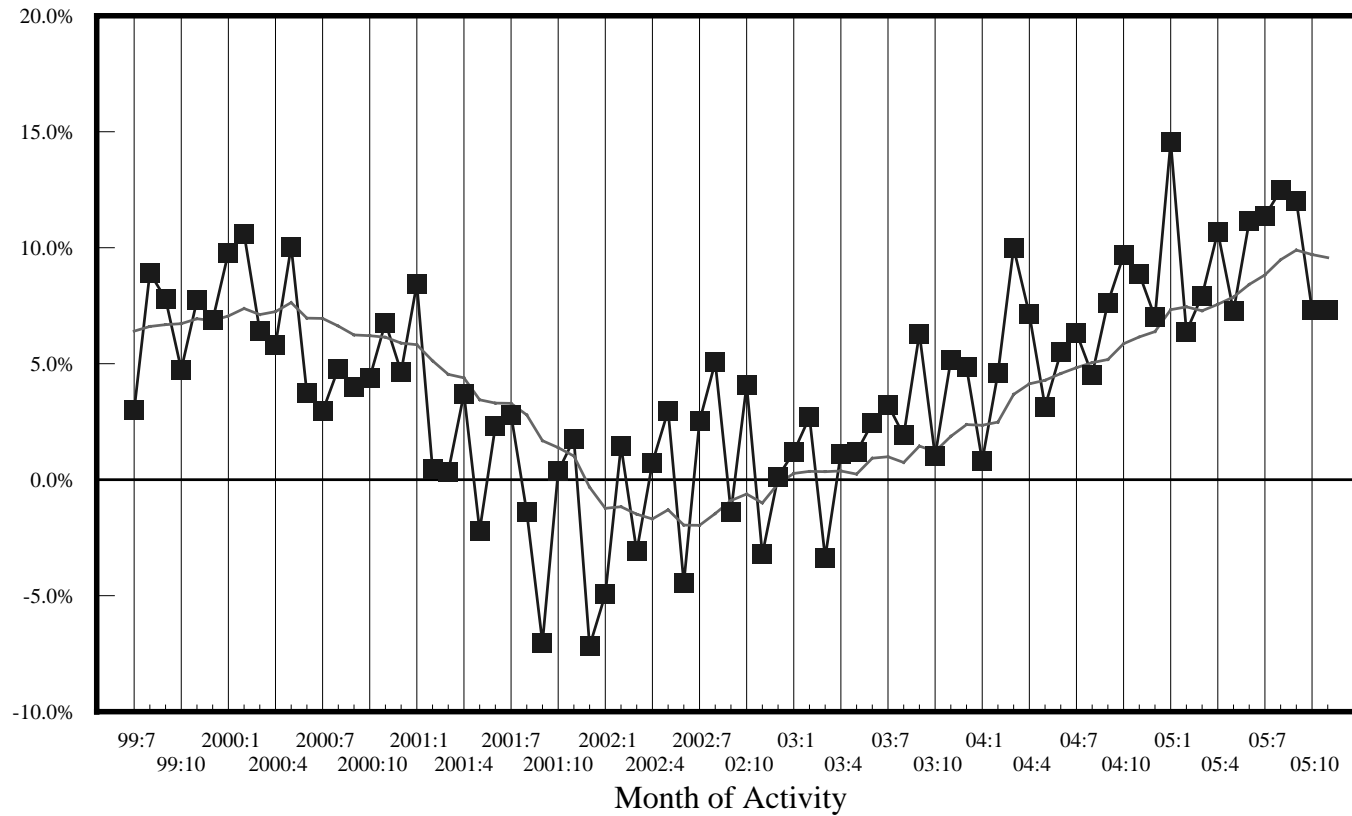
3 Cumulative receipts since the Nov. 2005 forecast: Nov. 11-Dec. 10, 2005 & revisions to history.

4 Cumulative receipts since the Nov. 2005 forecast (November 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month — 12 month moving ave.

*adjusted for new legislation and special factors